

Message Text

SECRET

PAGE 01 JIDDA 04230 211710Z

50 S

ACTION SS-30

INFO OCT-01 ISO-00 /031 W

----- 070784

R 211620Z JUL 74

FM AMEMBASSY JIDDA

TO SECSTATE WASHDC 7973

INFO AMEMBASSY BONN

AMEMBASSY ABU DHABI

AMEMBASSY CARACAS

AMCONSUL DHAHRAN

AMEMBASSY JAKARTA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

S E C R E T JIDDA 4230

EXDIS

E.O.: 11652: GDS

TAGS: ENRG, SA, KU

SUBJ: KUWAITI OIL PROBLESM

REF : JIDDA 4087

SUMMARY: GULF OIL COMPANY CAPITULATION TO KUWAIT DEMANDS
SURPRISED THE SAUDIS, PARTICULARLY YAMANI. NONETHELESS
HE INTENDS TO GO AHEAD WITH HIS OIL AUCTION AS SOON AS
POSSIBLE IN ORDER TO ESTABLISH A "MARKET PRICE" FOR OIL.
END SUMMARY.

1. SECRETARY OF TREASURY SIMON, THE AMBASSADOR, AND SAUDI
PETROLEUM MINISTER AHMAD ZAKI YAMANI, DISCUSSED AT
LENGTH THE CAPITULATION OF GULF OIL COMPANY TO KUWAIT
DEMANDS FOR 95 PERCENT OF POSTED PRICE FOR THE BUY-BACK
OIL. THIS ANNOYED YAMANI, PARTICULARLY AS HE HAD TOLD
THEM NO TO YIELD. YAMANI SAID THAT GULF WOULD SOON RE-
SECRET

SECRET

PAGE 02 JIDDA 04230 211710Z

GRET ITS ACTION, BUT UNFORTUNATELY IT WOULD ALSO HAVE

ADVERSE EFFECTS ON ALL THE OTHER COMPANIES AND ON THE CONSUMERS.

2. YAMANI, IN SPITE OF OUR PROTESTATIONS TO THE CONTRARY, SEEMS TO HAVE CONCLUDED THAT THE U.S. MIGHT NOT HAVE BEEN AS TOTALLY COMMITTED TO LOWERING OIL PRICES AS IT HAD PROCLAIMED PUBLICLY AND IN OUR PRIVATE MEETINGS WITH HIM. HE BELIEVES, APPARENTLY QUITE SINCERELY, THAT IF THE U.S. HAD TRULY PUT PRESSURE ON GULF NOT RPT NOT TO YIELD TO KUWAITI DEMANDS, GULF WOULD HAVE HAD NO CHOICE BUT TO STAND FIRM.

3. THIS CONCLUSION IS ONE THAT THE FRENCH AND OTHERS REACHED SEVERAL YEARS AGO, NAMELY: "THE U.S. HAS ADEQUATE SUPPLIES OF HIGH COST ENERGY. IT CANNOT COMPETE WITH EUROPE IF EUROPE IMPORTS LOW COST OIL FROM THE MIDDLE EAST. THEREFORE, THE U.S. HAS THE SAME INTEREST AS OPEC IN HIGHER WORLD PRICES."

4. WORSE, INsofar AS OUR RELATIONSHIP WITH YAMANI IS CONCERNED, IS THE CONCURRENT CONCLUSION THAT WE MIGHT HAVE BEEN PLAYING WITH HIM FOR SOME OBSCURE REASON OF OUR OWN.

5. YAMANI STATED SEVERAL TIMES THAT IT WILL NOW BE POLITICALLY IMPOSSIBLE FOR SAUDI ARABIA TO ACCEPT LESS FOR ITS BUY-BACK OIL THAN KUWAIT GETS. HE DID, HOWEVER, SAY THAT SAUDI ARABIA WOULD PROCEED WITH ITS AUCTION AND HE ASSURED SECRETARY SIMON THAT ANY PRICE WOULD BE ACCEPTED FOR THE OIL. HE SAID HE THOUGHT THAT THE BIDS WOULD RUN BETWEEN 80 AND 85 PERCENT OF POSTED PRICE. IN A SEPARATE CONVERSATION WITH THE AMBASSADOR LATER IN THE DAY, YAMANI SAID THAT THE KUWAITI VICTORY WAS DISASTROUS BUT "GULF WILL PAY FOR ITS COWARDICE." HE SAID GULF WOULD BE LOCKED INTO THE HIGH PRICE EVENTHOUGH ITS CONTRACT ONLY GOES THROUGH SEPTEMBER. HE THOUGHT A NEW WORLD PRICE WOULD BE ESTABLISHED BY HIS AUCTION AND IF GULF THEN TRIES TO PAY LESS THAN 95 PERCENT OF POSTED PRICE THE LAST QUARTER OF THE YEAR IT WILL FACE IMMEDIATE NATIONALIZATION. IF IT HAD REMAINED FIRM NOW, HE SAID, THE COMPANY COULD NOT RPT NOT POSSIBLY BE IN A WORSE POSITION;
SECRET

SECRET

PAGE 03 JIDDA 04230 211710Z

VERY PROBABLY IT WOULD BE IN A MUCH BETTER ONE.

6. THE AMBASSADOR ASKED IF THIS WOULD MEAN A NEW PRICE SYSTEM FOR OIL - 95 PERCENT FOR THE MAJORS' BUY-BACK OIL; A LOWER PRICE FOR THE GOVERNMENT OIL? YAMANI SAID THIS WAS EXACTLY WHAT IT WOULD MEAN; AND "WE WILL SEE A SITUATION WHERE THE OWNER COMPANIES WILL BE IN A WORSE POSITION THAN THE INDEPENDENTS WHO BUY FROM US." THE AMBASSADOR

ASKED IF IT WOULD BE POSSIBLE TO ADVANCE THE AUCTION AND MAKE IT AS LARGE AS POSSIBLE WITH MOST OF THE OFFERING COMING OUT OF NEW PRODUCTION. YAMANI SAID THIS WOULD BE DISCUSSED IN THE HIGH OIL COUNCIL MEETING NEXT MONDAY (JULY 22); HE WOULD ASK TO HAVE THE AUCTION BY THE END OF JULY OR THE VERY FIRST OF AUGUST; HE WOULD ASK IT BE FOR TWO MILLION BBLs/DAY WITH A SIGNIFICANT PART OUT OF NEW PRODUCTION. YAMANI SAID THAT BY SEPTEMBER FIRST WHEN DELIVERIES STARTED, PRODUCTION CAPACITY WILL BE AT TEN MILLION BBLs/DAY. IT WOULD THEREBY HAVE WELL OVER A MILLION BBLs/DAY ABOVE CURRENT PRODUCTION LEVEL.

7. YAMANI WAS EXTREMELY PLEASED THAT SECRETARY SIMON HAD THANKED THE KING FOR HIS POSITION ON OIL PRICES AND WAS EVEN MORE PLEASED WHEN THE KING RESPONDED THAT AS IT WAS SAUDI ARABIA'S DUTY TO THE WORLD TO HOLD THE LINE ON PRICES, IT WAS U.S.'S DUTY TO PUT PRESSURE ON OTHER OPEC COUNTRIES, NOTABLY IRAN, TO COOPERATE WITH SAUDI ARABIA IN BRINGING DOWN PRICES.

8. COMMENT: IN SPITE OF YAMANI'S STATEMENTS AND APPARENT CONVICTION THAT HE CAN WEATHER THE KUWAITI STORM, HE HAS FORMIDABLE OPPOSITION. PRINCE MUSA'ID (MINISTER OF FINANCE), ABA AL-KHAIL (MINISTER OF STATE FOR FINANCE), AND HISHAM NAZER (MINISTER OF PLANNING), ALL WANT PRODUCTION TO BE DECREASED, NOT RPT NOT INCREASED; ALL ALSO ADVOCATE AT LEAST MODERATE SAUDI RESPONSIVENESS TO THE DEMAND OF THE REST OF OPEC FOR HIGHER OIL PRICES. THEY WILL ARGUE THAT IT WILL BE PLAYING INTO THE HANDS OF ARAB RADICALS TO ACCEPT NOW LESS THAN KUWAIT HAS ACHIEVED AND THAT FURTHER STUBORNESS WOULD ISOLATE THEM FURTHER FROM THEIR ARAB AND OTHER OPEC PARTNERS. COUPLED WITH THIS WILL BE THE BELIEF THAT THE U.S. DID NOT REALLY TRY TO PERSUADE GULF NOT TO
SECRET

SECRET

PAGE 04 JIDDA 04230 211710Z

YIELD; THAT THE U.S. IS TRYING TO USE SAUDI ARABIA AS AN INSTRUMENT TO DESTROY OPEC AND ARAB UNITY. THIS WILL BE A HARD POSITION FOR YAMANI TO COMBAT, PARTICULARLY AS HE HAS DOUBTS OF HIS OWN. HOWEVER, HE DOES HAVE POWERFUL FORCES ON HIS SIDE. THE KING'S STATEMENTS TO SECRETARY SIMON ON LOWER PRICES WERE MADE IN THE PRESENCE OF PRINCE MUSA'ID (YAMANI ASKED IN GREAT GLEE IF THE AMBASSADOR HAD NOTICED HOW MUSA'ID GRIMACED WHEN THE KING SPOKE ABOUT GREATER PRODUCTION AND LOWER PRICES). PRINCE FAHD, THE HEAD OF THE HIGH OIL COUNCIL, WILL ALSO VERY LIKELY SUPPORT YAMANI. WE SUSPECT THAT, AS USUAL, THERE WILL BE A COMPROMISE; THAT THE AUCTION WILL TAKE PLACE BUT IT WILL NOT BE AS BIG AS YAMANI HOPES (TWO MILLION BBLs/DAY) AND THAT ONLY A RELATIVELY SMALL PORT (I.E. 200-400,000 BBLs/DAY) OF THE AUCTION WILL COME FROM NEW PRODUCTION.

AKINS

NOTE BY OC/T: EXDIS ADDED, LIMDIS DELETED PER S/S-O:MR. KUCHEL

SECRET

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM INDUSTRY, PETROLEUM PRODUCTION, PRICES, NEGOTIATIONS, AUCTIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 21 JUL 1974
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: boyleja
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974JIDDA04230
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740196-1032
From: JIDDA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740731/aaaaazxw.tel
Line Count: 172
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION SS
Original Classification: SECRET
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: SECRET
Previous Handling Restrictions: EXDIS
Reference: JIDDA 4087
Review Action: RELEASED, APPROVED
Review Authority: boyleja
Review Comment: n/a
Review Content Flags:
Review Date: 24 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <24 APR 2002 by shawdg>; APPROVED <19 FEB 2003 by boyleja>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: KUWAITI OIL PROBLESM
TAGS: ENRG, SA, KU, GULF, (YAMANI, AHMAD ZAKI)
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005